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CHEMICAL BANKING Corporation

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Financial Digest

Volume XXIX, Number 3 Monday, February 10, 1992

Analysis of Business Trends Plus Selected Financial Indicators

Fiscal Policy Palliatives

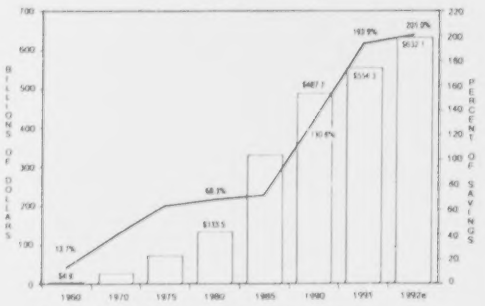
With the Presidential election campaign about to shift into second gear and the economy stuck in neutral, the Administration recently unveiled a fiscal policy package designed to jump-start business activity. Although it had been feared that the budget proposals would contain an imprudent mix of fiscal excess and election year gimmickry, the program offered in the State of the Union Message attempted to walk a fine line between short-term economic needs and the indisputable realization that future budget deficits must be contained. For this reason, a wide variety of generally limited palliatives was recommended, ranging from diminished income tax withholding from workers' paychecks to a modest paring of the capital gains tax rate to a first-time homebuyers' tax credit, rather than sweeping across-the-board income tax cuts which could seriously compromise longer-run deficit reduction efforts. As it is, the budget outlook is less than sanguine, with hefty annual deficits projected well into the future.

Nonetheless, with business barely crawling into the new year, it was a foregone conclusion that Washington would initiate some steps to assist the economy, near-term. The principal problem confronting the policymakers was how to do so without swelling the deficit to gargantuan proportions, thereby unnerving the bond markets and triggering an unwelcome rise in long-term interest rates. The result is a grab bag of tax breaks and temporary incentives, many of which have been implemented before, designed to encourage consumer spending, investment outlays and housing, offset to some extent by selective spending cuts. The net result adds only marginally to the deficit.

One of the central features of the program is a trimming of income tax withholding. Since most workers have more withheld from their paychecks than is necessary to satisfy their Federal tax obligations, this change limits overwithholding and boosts spendable income. For the average married taxpayer, this will work out to about $350 over the course of the year. While this may seem paltry, it does add up to an approximately $25 billion "backdoor" tax cut.

Another widely-publicized element of the program is a temporary ten percent tax credit, up to $5,000, for first-time homebuyers who purchase a home this year. Once again, while this may seem like a modest amount, a similar inducement in the mid-1970s provided a strong fillip to a dormant housing industry. In 1975, a temporary $2,000 tax credit was offered to purchasers of a new home; within a year, housing starts had nearly doubled. So, too, the proposed 15 percent, temporary investment tax allowance for new equipment purchases has been in and out of the tax codes numerous times, most recently in 1986.

TOTAL FEDERAL GOVERNMENT BORROWINGS* (BAR) VS.
FEDERAL BORROWINGS AS A PERCENT OF NATIONAL SAVINGS (LINE)
<SELECTED FISCAL YEARS>



Sources: Treasury Department; Office of Management and Budget; Chemical

*Consists of borrowings from public, Federally guaranteed loans and borrowing by Federally-sponsored enterprises and borrowing from trust funds.

Short-Term Stimulus

The President's message contains both pluses and minuses. On the plus side, by proposing largely tested, selective measures the Administration accomplishes two things: First, it stands a fair chance of providing a short-run lift to the economy and, second, it does so without substantially widening the deficit. For although the budget gap is now projected to widen to a whopping $400 billion in fiscal 1992, or $51 billion more than was estimated just six months ago, the bulk of the deterioration can be traced to economic weakness, rather than the recommended initiatives. They add up to roughly $20 billion in foregone revenues; this is far overshadowed by the additional $50 billion that will be "lost" due to the weaker-than-expected economy. On the spending side, not much has

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changed except that outlays associated with the savings and loan bailout are running below expectations this year—the biggest element of a $19 billion downward revision in estimated Federal outlays in fiscal 1992.

But the minus side is even more stark, and the implications far-reaching: Massive Federal deficits will persist throughout the remainder of the decade. Even under favorable circumstances, the fiscal 1993 budget deficit is projected to recede only slightly—to $352 billion. Beyond that, the outlook is not much brighter, with deficits averaging $200 billion in each year between fiscal 1994 and fiscal 1997. Putting the six-year, fiscal 1992-97 period together yields a sobering conclusion—namely, that the Federal government is at the threshold of adding $1.5 trillion of debt to the existing debt mountain even if growth picks up, inflation remains becalmed and interest rates in check. And, since "outyear" budget deficit estimates are often notoriously optimistic—usually trending steadily lower—this may well be a "best case" expectation.

Long-Run Blues?

If it is, problems loom on the horizon. With the ratio of Federal debt to gross national product

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (1/22/92)	161,562	- 1,373	- 50,584
New York City (1/29/92)	28,807	- 22	- 5,287
Commercial Paper (1/29/92)	541,887	+ 3,606	- 25,746

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (1/22/92)	289,601	- 592	- 29,348
New York City (1/29/92)	50,785	+ 26	- 5,849

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (1/22/92)	1,019,747	- 5,788	- 38,417
New York City (1/29/92)	161,949	- 1,816	- 13,306

Financial Markets

	Friday 2/7/92	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	3.81%	- .12	- 2.26
180-Day Bills†	3.91	- .13	- 2.23
Longest Bills†	4.08	- .11	- 2.09
Recent Issues:			
4⅞s 1/31/94	4.93	- .17	
6⅛s 1/31/97	6.36	- .07	
7⅛s 11/15/01	7.19	- .10	
8s 11/15/21	7.77	+ .01	
Municipals:			
Bond Buyer—20 Bond Index* (2/6/92)	6.71%	+ .06	- .15
Blue List Total ($ Million)	$1,359	- $ 170	+$ 538
30-Day Visible Supply ($ Million)	$6,666	+ $1,734	+$3,297
Total	$8,025	+ $1,564	+$3,835
Corporates:			
Moody's Aa Composite (2/6/92)	8.59%	–0–	- .60
30-Day Visible Supply ($ Million)	$ 703	- $ 356	+$ 198
Stocks:			
Dow-Jones Averages:			
Industrials	3,225.40	+ 2.01	+394.71
Transportation	1,383.23	+ 28.97	+280.98
Utilities	206.25	- 4.13	- 8.41
65 Stocks	1,160.05	+ 4.53	+145.14
N.Y.S.E. Composite Index	227.65	+ 1.45	+ 31.55
N.Y.S.E. Avg. Daily Vol. for Week (000's)	229,062	+ 19,729	- 30,693

*34% Taxable equivalent 10.17%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 2/7/92	Week Ago
Overnight	4.00%	4.06%
1 month	3.94	4.06
3 month	3.94	4.06
6 month	3.94	4.19
1 year	4.44	4.56

FOREIGN EXCHANGE SPOT RATES

New York Opening (2/7/92)	Currency Per U.S. $	Week Ago
Belgium	32.31	33.27
Canada	1.1840	1.1734
France	5.3445	5.5075
Germany	1.5685	1.6160
Italy	1180.00	1212.80
Japan	125.22	125.14
Mexico	3103.80	3102.40
Netherlands	1.7660	1.8177
South Korea	747.91	747.71
Switzerland	1.3988	1.4365
Taiwan	24.69	24.74
U.K.*	1.8300	1.7815

*U.S. $ per U.K. pound

CHEM TRADE-WEIGHTED DOLLAR (2/7/92) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	-0.3%	-12.2%

spiking from less than 60 percent in fiscal 1990 to an estimated 73 percent by fiscal 1995, the financial markets will have to continue to wrestle with a deluge of Treasury securities. To be sure, as long as private credit demands remain subdued, the impact on interest rates will be muted. However, private credit needs will not remain as lethargic as they are now forever, ensuring that the seeds of ascending interest rates are never far below the surface.

But interest rates are only part of the story. More troubling is the fact that the Federal government is absorbing an ever-larger share of the nation's resources, leaving less for everyone else. As shown in the chart, total Federal and Federal-related borrowings will be equivalent to more than 200 percent of national savings in the current fiscal year, compared with less than 14 percent three decades ago. This limits the savings pool elsewhere, potentially pinching everything from corporate expansion plans to a potential homebuyer's ability to secure an affordable mortgage. To some, this may be acceptable. However, it does imply that the private sector will be increasingly emasculated, playing second-fiddle to Washington's voracious appetite. Failure to address this long-run conundrum was the greatest omission in the State of the Union Message.

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 2/5/92	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies			
Owned Outright & RPs	268.503	+ .130	+25.322
Loans to Depository Inst.	.161	+ .064	- .073
Float	.369	- .242	- .816
Total Reserve Bank Credit	302.910	- .625	+17.198
Treasury Deposits with			
Federal Reserve Banks	8.599	- .254	- 2.583
Currency in Circulation	300.142	- .443	+17.198
Gov't's held for Foreign Acct.			
by F.R. Banks (End-of-Week)	265.276	+ 1.338	+10.214
Member Bank Reserves:	**2/5/92**		
Total Reserves Held	54.480	- 1.383	- 6.421
Excess (Deficiency)	1.088	+ .163	- 1.633
Net Free Reserves	.961	+ .172	- 1.599

Monetary Aggregates †		‡ % Change Since 3 Months Ago*	% Change Since Year Ago
M1 (1/27/92)	924.4	+ 13.5	+ 10.0
M2 (1/27/92)	3,477.6	+ 3.8	+ 2.9
M3 (1/27/92)	4,199.7	+ 2.8	+ 1.1
Domestic Nonfinancial Debt (2nd Q'91)	10,735.3	+ 4.6	+ 5.0

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 2/7/92	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	3.72%	3.76%	3.88%
* Federal Agencies	3.80	3.90	4.00
* Municipal Notes–High Grade (34% Taxable Equivalent)	4.02	4.09	4.47
Negotiable Time CDs			
Chemical	Rates By Arrangement		
* Secondary Market–Prime	3.99	4.02	4.35

‡ Finance Company Paper–Prime

5- 14 days	3.80%
15- 29 days	3.85
30- 59 days	3.90
60- 89 days	3.95
90-179 days	3.97
180-239 days	4.00
240-270 days	4.00

‡* Bankers' Acceptances

Mar.	3.87%
Apr.	3.85
May	3.83
Jun.	3.83
Jul.	3.82
Aug.	3.82

‡ Industrial Paper–Prime

30- 89 days	4.02%
90-120 days	3.98

†Federal Funds Effective Rate 3.62%

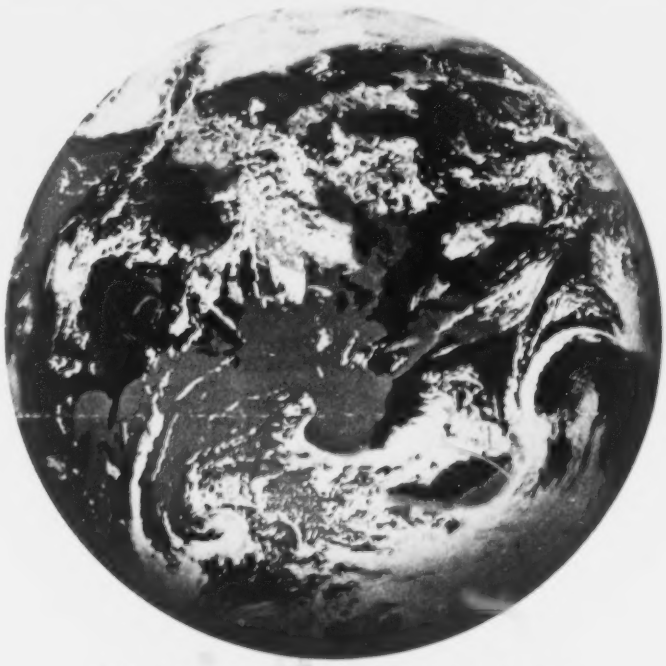
‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross Domestic Product (Current Dollars)*	4th Q'91 n	$ 5,737	$ 5,709	$ 5,558
Gross Domestic Product (1987 Dollars)*	4th Q'91 n	$ 4,866	$ 4,863	$ 4,855
Percent Change, Annual Rate	4th Q'91 n	0.3	1.8	- 3.9
Change in Consumer Prices*	Dec '91	3.6%	4.8%	3.6%
Change in CHEM Cost of Living Index*	Dec '91	2.4%	6.0%	4.8%
Change in Producer Prices*	Dec '91	- 2.4%	2.4%	- 7.2%
Civilian Employment (Thousands of Persons) †	Jan '92 n	117,117	116,728	116,977
Unemployment as % of Civilian Labor Force †	Jan '92 n	7.1%	7.1%	6.2%
Personal Income*	Dec '91 n	$ 4,923	$ 4,874r	$ 4,790
Leading Indicators Composite Index (1967=100) †	Dec '91 n	144.8	145.2r	139.4
Industrial Production Index (1977=100) †	Dec '91	107.8	108.0	107.2
Net Change in Consumer Installment Credit †	Nov '91	$ 0.03	$ 1.67	$ 0.98
U.S. Merchandise Trade Balance †	Nov '91	- $ 3.57	- $ 6.32	- $ 9.54
Plant and Equipment Expenditures*	1st Q'92	$ 563.3(a)	$ 532.0(a)	$ 535.5
Private Housing Starts (Thousands of Units)*	Dec '91	1,103	1,075	971
New Construction Expenditures*	Dec '91 n	$ 407.4	$ 408.4r	$ 421.3
Total Business Inventories †	Nov '91	$ 814.3	$ 813.0	$ 830.9
Total Business Sales †	Nov '91	$ 543.6	$ 543.0	$ 546.5

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure r-Revised. a-Anticipated.



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